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C O N F I D E N T I A L SECTION 01 OF 04 HARARE 000098

SIPDIS

AF/S FOR B. NEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN
TREASURY FOR J. RALYEA AND B. CUSHMAN

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ASEC](#) [ZI](#)

SUBJECT: MONETARY POLICY STATEMENT THIN ON REMEDIES

REF: (A) HARARE 97 (B) HARARE 96 (C) HARARE 46 (D) 05
HARARE 1485 (E) 05 HARARE 1018

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

Summary

1. (SBU) Reserve Bank Governor Gideon Gono's Quarterly Monetary Policy Review Statement of January 24 failed to present policy changes to stem Zimbabwe's economic implosion. Gono conceded that Zimbabwe's officially reported mid triple-digit inflation had not yet peaked. Tacitly admitting events were beyond his control, Gono asserted that the best hope for a turnaround lay in improved exogenous factors like rainfall, the world oil price, and western sanctions policy. He also appealed for a clampdown on corruption and mismanagement of parastatals and local authorities.

2. (SBU) After loosening management of the forex market and allowing the currency to depreciate by two thirds in the past quarter, Gono reasserted control by tying movement in the rate to minimum trade volumes, effectively paralyzing the interbank market (ref A). Again, he called for zero tolerance of farm disruptions, this time claiming to have the full support of Lands Minister/Security Minister Mutasa. He raised eyebrows with a reference to the regime's concerns over possible food riots (ref B) and reached out to the diplomatic community over sanctions, which he said had wreaked havoc on the lives of ordinary Zimbabweans. The Monetary Policy Review Statement for the Fourth Quarter 2005 and seven supplements to the Statement are available at <http://www.rbz.co.zw>. End Summary.

Inflation to Peak at 700-800 Percent in March

3. (U) In his Statement, Gono acknowledged the RBZ's losing battle against inflation. He forecast:

-- a continued upswing in the rate of inflation to a peak of 700-800 percent in March;

-- inflation falling to under 500 percent in June 2006;

-- a further drop to 200-300 percent by year-end.

(N.B. Gono had maintained in October (Ref D) that the rate would fall to 280-300 percent by December 2005; his July Statement forecast 80 percent at end-2005 (Ref E); the official inflation figure for 2005 was 585 percent (Ref C). More reliable sources put the current rate at over 1000 percent.)

4. (SBU) Gono maintained that inflation was being driven by: the high annual M3 money supply growth (i.e. the stoked up printing of currency, up 411 percent in November 2005, up from 177 percent in January 2005) in support of the agricultural sector; supply bottlenecks attributable to drought; declining forex earnings; a sharp downturn in gold deliveries; high international oil prices; and parallel market activities.

5. (SBU) In his address to the diplomatic community on January 25, Gono said high-level government officials had warned him that if Zimbabwe hit quadruple-digit inflation he would be out of a job. (N.B. That would be the official/official rate.) Asked by one ambassador what policy measures were in place to tame inflation that had not been in place in 2005, Gono said 2005 had been marked by &political slippages due to the March and November elections, and the formation of a new government, whereas 2006 was a &clear calendar politically. Furthermore, the rainy season was bountiful; the world oil price had stabilized; debt servicing would be less in 2006 than the US\$200 million paid down in 2005; and, lastly, a purported lifting of sanctions would lead to an economic takeoff.

External Sovereign Debt

16. (SBU) Gono announced to the diplomats that the GOZ had paid down a further US\$25 million in arrears to the IMF General Resources Account since the last Monetary Statement, leaving Zimbabwe &US\$14.5 million away from claiming back its voting rights at the IMF.⁸ He also told the diplomatic community that he would undertake a road show in 2006 to seek a Paris Club debt treatment. The British Ambassador responded by pointing out that the introduction of sound economic policies, drafting of a poverty reduction strategy in consultation with civil society, and engagement with the international financial institutions were prerequisites for any consideration of debt relief for Zimbabwe.

A Cap on Movement in the Foreign Exchange Market

17. (SBU) Gono's policy statement reasserted control over the foreign exchange market after the exchange system's liberalization in October (Ref B) led to over 50 percent depreciation of the currency in the fourth quarter (septel). The Governor introduced a new policy of linking movement in the interbank market rate to the volume of forex traded. Effective immediately, the new regime put a two percent cap on daily movement in the exchange rate at volumes of US\$15 million and above, and prohibited adjustment when less than US\$5 million is traded. (N.B. Banking sector contacts tell us that daily volume has never exceeded US\$5 million since inception of the interbank trading system in October.) While reiterating in principle his commitment to gradually loosening the RBZ's management of the exchange rate, Gono defended the policy change by pointing out that 100 exporters account for 95 percent of all forex generated in Zimbabwe. In his view, the Zimbabwean forex market was too thinly traded to free up &in a big-bang approach.⁸

Cold Water on New Currency; New Z\$50,000 Note

18. (SBU) Gono conceded to the diplomatic community that given the inflation rate, he would not implement a new currency in 2006, as foreseen in his October Statement and reasserted in the January Statement. He did announce the introduction on February 1 of a new higher denomination Zimbabwean dollar bearer cheque of Z\$50,000. (N.B. To the relief of all Zimbabweans as the bricks of currency weighing down satchels and bursting consumers, tote bags have continued to grow for the past half year.)

"Zero-Tolerance" of Farm Disruptions - Again

19. (SBU) Gono reiterated the call in his October Statement for zero tolerance of farm disruptions. He maintained that he had a &viable understanding⁸ from Didymus Mutasa, the Minister responsible for State Security, Lands, Land Reform and Resettlement, that Mutasa would halt any farm disruptions, particularly where the RBZ or any other Zimbabwean bank held a farmer's loan. He said Mutasa would use all powers vested in him &and other machinations of government⁸ to stop disturbances. (N.B. The January 26 Financial Gazette, of which Gono is a principal shareholder, reported instances of Mutasa's intervention to thwart recent attempted farm disposessions.) Gono also told the diplomatic community that neither drought nor land reform would be a valid excuse for importing food in 2006.

Railing Against Corruption

110. (SBU) Central both to the Governor's televised delivery of the Policy Statement and to his presentation to the diplomatic community was a strident attack on corruption and mismanagement. At the diplomatic briefing, he lambasted corruption at high levels of government in fuel distribution and in the mining sector. Citing the precipitous decline in gold deliveries (from 21,342 kg in 2004 to 13,453 kg in 2005) at the same time that power usage in the sector was on the rise, Gono calculated that 9,000 kg of gold had likely been smuggled out of the country in 2005. He vented particular wrath on small-scale producers and associated culprits in government who, he said, were going &scot-free⁸. He also railed against the &dependency syndrome⁸ and &insatiable appetite for free money⁸ of parastatal managers and local authorities warning them to &shape up or be honorable enough to ship out.⁸

Sanctions &Wreaking Havoc on Poor Zimbabweans⁸

11. (SBU) In a 15-page Supplement (&An Analysis of the Socio-Economic Impact of Sanctions Against Zimbabwe8) to the Monetary Statement and in his address to the diplomatic community, Gono maintained that sanctions had wreaked havoc on ordinary Zimbabweans. In the form of either &declared or undeclared sanctions,8 they had blocked international financial institution engagement and balance of payments support, caused an exodus of NGOs (not mentioning the GOZ's harassment and increasing repression of NGOs), and scared away donor assistance.

12. (SBU) To the diplomatic community he said the GOZ understood &the message8 of sanctions, but it was time to &build bridges.8 &We,11 meet you halfway,8 he said. Addressing the British Ambassador, Gono said, &Just as the good rains after drought wash away the sins and misdeeds of the past, the diplomatic community should implore its governments to wash away the past. The reaction, I assure you, will be positive.8 He called on the British Ambassador to spearhead a debate on lifting sanctions. (N.B. The British Ambassador left post permanently on January 29).

Other Measures Announced

13. (U) Further new policies/recommendations announced January 24 included:

- revision of the amount of export funds retained and exchangeable at the interbank rate from 70 percent to 82.5 percent; 17.5 percent of export funds (down from 30 percent previously) are to be sold to the RBZ at the official auction rate,
- revision of the official auction rate from Z\$26,000:US\$ to Z\$30,000:US\$,
- shortening of the Foreign Currency Account (FCA) retention period from 45 days to 30 days for private companies,
- requirement that parastatals keep all forex with the RBZ,
- an increase from Z\$300,000 to Z\$5 million (about US\$31 on the parallel market) in the amount travelers may take out of the country,
- ongoing revision of interest rates in line with inflation to maintain positive real interest rates.

Further economic performance figures announced:

- Total export shipments in 2005 amounted to US\$1.42 billion, a decline of 9.04 percent from the 2004 figure of US\$1.58 billion.
- Foreign exchange inflows into the formal market declined from US\$1.71 billion in 2004 to US\$1.70 billion in 2005.

Comment

14. (C) Overall, Gono,s Statement was woefully short on policy prescriptions to arrest the economic implosion, and reaction has been largely negative (ref B). We remain convinced that the GOZ is incapable of taking the first steps across that two-way bridge that Gono so expressively depicted. Gono may yet avoid being the scapegoat for the nation's economic disaster as rumors grow of impending high-level GOZ dismissals. He is resented by many but probably remains potentially useful to those among the ruling clique and aspiring successors who are already posturing to appeal to the West as the Mugabe succession game plays out.
DELL